

**D05E01
Board of Public Works**

Operating Budget Data

(\$ in Thousands)

	<u>FY 17</u> <u>Actual</u>	<u>FY 18</u> <u>Working</u>	<u>FY 19</u> <u>Allowance</u>	<u>FY 18-19</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$7,092	\$7,687	\$7,686	-\$1	
Adjustments	0	-13	9	22	
Adjusted General Fund	\$7,092	\$7,674	\$7,695	\$21	0.3%
Special Fund	500	0	0	0	
Adjustments	0	0	0	0	
Adjusted Special Fund	\$500	\$0	\$0	\$0	
Adjusted Grand Total	\$7,592	\$7,674	\$7,695	\$21	0.3%

Note: FY 18 Working includes targeted reversions, deficiencies, and across-the-board reductions. FY 19 Allowance includes contingent reductions and cost-of-living adjustments.

- After adjusting for an across-the-board reduction in fiscal 2018, employee and retiree health insurance costs, and adding an employee general salary increase into the fiscal 2019 appropriation, the fiscal 2019 budget increases by \$21,229.
- The increase is attributable to increased fiscal 2019 health insurance costs (\$13,298) and the general salary increase (\$8,905).
- The remaining costs are essentially flat. The most notable changes are a \$609 reduction in telecommunication costs and a \$562 reduction to the Board of Public Works' (BPW) allocation for the Statewide Personnel System.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 17</u> <u>Actual</u>	<u>FY 18</u> <u>Working</u>	<u>FY 19</u> <u>Allowance</u>	<u>FY 18-19</u> <u>Change</u>
Regular Positions	9.00	9.00	9.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	9.00	9.00	9.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/17	0.00	0.00%

- There are no new regular positions or contractual full-time equivalents in fiscal 2019. No positions are abolished, either.

Analysis in Brief

Major Trends

Number and Value of Procurement Contracts Vary: The value of contracts approved in fiscal 2015 was unusually high because the board approved \$9.0 billion in multi-year employee and retiree health and dental care contracts. The value of contracts and modifications approved increased from \$3.3 billion in fiscal 2016 to \$4.6 billion in fiscal 2017.

Competitiveness of Contracts: Competitive sealed bid and competitive sealed proposal are the preferred procurement methods of the State, as each attempts to achieve as much competition as possible. Just over 50% of contracts approved by BPW in fiscal 2016 and 2017 were competitive procurements. **Insofar as this is the preferred procurement method, 50% seems low. The board should discuss strategies that can be implemented to increase the number of competitively bid procurements.**

Issues

Annual Review of Maryland Zoo Attendance and Financial Statements: As in recent years, the Maryland Zoo submitted financial statements and attendance reports to the budget committees. From fiscal 2013 to 2017, attendance increased at an annual rate of 6%, with attendance increasing almost 9% from fiscal 2016 to 2017. Over the same period, revenues exceeded expenditures in three of the five years. **The Maryland Zoo in Baltimore should be prepared to discuss its future direction and financial prospects.** Fundraising revenues have been growing at an increased rate in recent years.

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Due to flat or reduced public funds, growth in this sector is crucial, as the zoo has had to rely more heavily on privately generated funds. **The zoo should be prepared to brief the committees on its increasing fundraising efforts.**

Operating Budget Recommended Actions

1. Adopt annual committee narrative directing the Maryland Zoo in Baltimore to submit attendance and financial data reports.

Updates

Contingent Fund Use: BPW maintains Maryland’s contingent fund, which is used to fund unforeseen circumstances. The contingent fund received a \$500,000 appropriation in fiscal 2017. A total of \$196,200 was transferred to the Secretary of State, the Interagency Committee on School Construction, and the State Board of Contract Appeals. The remaining funds were reverted to the General Fund.

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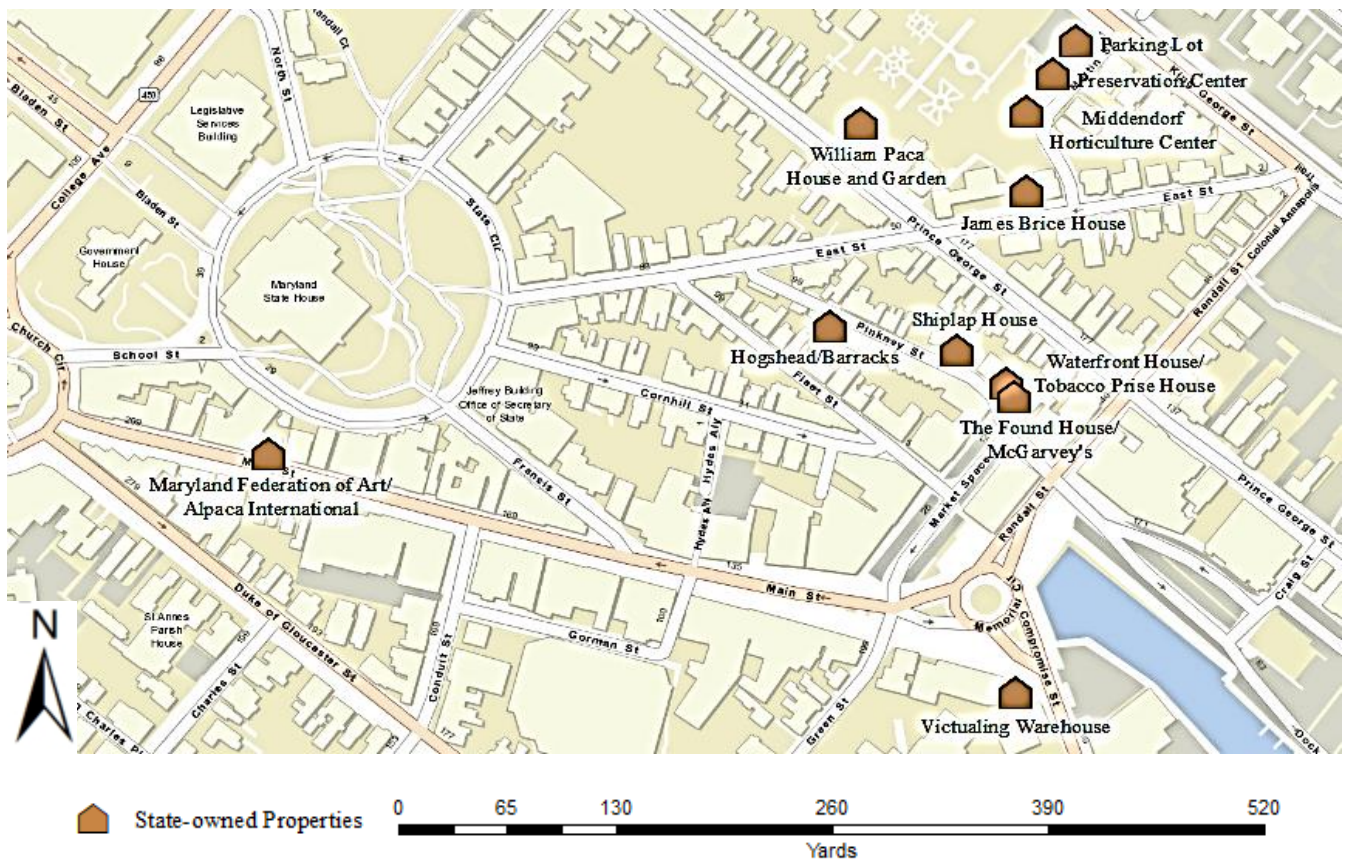
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Operating Budget Analysis

Program Description

The Governor, the Comptroller, and the Treasurer comprise the Board of Public Works (BPW). The board approves leases and contracts executed by State agencies. It adopts and promulgates rules, regulations, and procedures for the administration of the State’s procurement law. The board approves certain actions of the Public School Construction Program, including the funding allocations to school boards in each county and Baltimore City. The board also approves the amount and timing of bond sales. BPW owns property in Annapolis. The Historic Annapolis Foundation (HAF) receives a grant to manage these properties. **Exhibit 1** shows the location of the properties.

Exhibit 1
Properties Managed by the Historic Annapolis Foundation
Fiscal 2018



Source: Board of Public Works; Department of Legislative Services

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The board is responsible for the issuance of licenses to people seeking to dredge in or to place fill on State tidal wetlands. The Wetlands Administration is a division of the board that prepares written recommendations and issues licenses after approval by the board. This program also coordinates the State's wetlands licensing program with other governmental agencies, landowners, and the general public.

The budget for BPW contains funds for:

- the administrative staff of the board;
- the Wetlands Administration office;
- a contingent fund that the board may allocate to supplement an agency's general fund appropriation when necessary;
- grants for private nonprofit groups; and
- a fund to pay settlements and judgments against the State, which has not received an appropriation since fiscal 2015.

Performance Analysis: Managing for Results

1. Number and Value of Procurement Contracts Vary

Exhibit 2 shows the number of contracts and modifications approved, along with the value of the number of contracts approved. The value of contracts approved in fiscal 2015 was unusually high because the board approved \$9.0 billion in multi-year employee and retiree health and dental care contracts. The value of contracts and modifications approved in fiscal 2017 increased when compared to fiscal 2016. Large new contract approvals in fiscal 2017 include:

- \$253 million in residential and nonresidential treatment services for youth referred by the Department of Juvenile Services who are before the courts;
- \$240 million for information technology (IT) services, applications, and equipment master contracts through the Department of Information Technology;
- \$217 million for a lottery central monitoring and control system;
- \$217 million for architectural and engineering service contract modifications for the Maryland Department of Transportation (MDOT); and
- \$200 million for construction management services at the University of Maryland, College Park Campus.

Exhibit 2
Contract Approvals and Modifications
Fiscal 2015-2019

	<u>Actual</u>			<u>Annual %</u>	<u>Estimated</u>	
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Change</u>	<u>2015-2017</u>	<u>2018</u> <u>2019</u>
New Contracts						
Contracts Submitted for Approval	600	655	662	5.0%	670	670
Contracts Approved	594	623	620	2.2%	650	650
Percent Approved	99%	95%	94%		97%	97%
Value of Contracts (\$ in Billions) ¹	\$11.1	\$3.3	\$4.6	-35.4%	\$4.0	\$4.0
Modifications						
Contract Modifications Submitted for Approval	252	332	261	1.8%	300	300
Contract Modifications Approved	238	306	247	1.9%	270	270
Percent Approved	94%	92%	95%		90%	90%
Value of Contracts (\$ in Billions)	\$1.0	\$1.0	\$1.4	18.3%	\$1.5	\$1.5

¹ This data excludes approvals that provide allocations of funds whose projects require subsequent approval. Examples of exclusions are general obligation bond sales and public school construction levels approved by the Interagency Committee on School Construction.

Source: Department of Budget and Management

2. Competitiveness of Contracts

A number of different procurement methods are available to State agencies. These include:

- Competitive Sealed Bids:** A procurement method in which selection is based solely on a low bid, assuming a responsible bidder submits a low bid. If there is only one bid, the award is classified as a “single bid/proposal received.” This approach is often used when the specifications can be finely detailed, are not overly complex, or when the price is the sole deciding factor. The types of procurements that use this approach include maintenance and repair contracts; general obligation bond sales; and venues for events, such as the “Maryland Teacher of the Year Gala.”
- Competitive Sealed Proposals:** A procurement method in which offerors submit separate technical and financial proposals that the State evaluates separately and then reviews the technical and financial ranks or scores in a final evaluation to determine which proposal is the most advantageous to the State. If there is only one proposal, the award is classified as a “single bid/proposal received.” If specifications cannot be finely detailed or are more complex, a

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creative solution is needed, or the price is not the sole deciding factor, this approach is advantageous. Procurements for technical services use this approach. For example, an actuarial procurement may include evaluating the quality of the actuaries as well as the cost of the services. This was also used to procure a noise monitoring system at Baltimore-Washington International Thurgood Marshall Airport.

- ***Negotiated Award after Unsatisfactory Competitive Sealed Bid:*** At times, competitive sealed bids will be opened, and an agency will determine that all bids are rejected, all bids are in excess of available funds, or all prices are determined to be unreasonable. If resolicitation would be fiscally disadvantageous or not in the best interest of the State, an invitation for revised bids shall be issued based on revised specifications or quantities. The agency may hold discussions with all bidders if there is a compelling need for further negotiation. Examples include selecting expert witnesses to testify at a trial or consulting services for a federally required Medicaid report after two failed procurements.
- ***Sole Source:*** A process under which an agency awards a contract to a vendor without competition. An agency may use this method if it determines that there is only one available responsible source; that compatible equipment, accessories, or replacement parts is the paramount consideration; or that a sole vendor's item is needed for trial use or testing, or to be procured for resale. Proprietary IT services are often bid with sole source contracts.
- ***Emergency and Expedited:*** A procurement that an agency may make by any method considered most appropriate to mitigate or avoid serious damage to public health, safety, or welfare. The agency must obtain as much competition as possible and limit, both in type and quantity, the items procured. Emergency contract awards shall be reported to BPW within 45 days of the contract award. Examples of emergency or expedited procurements include replacing broken pipes and boilers or replacing inoperable equipment by an emergency fire escape. The Maryland Port Administration and the Maryland Aviation Administration can enter into expedited procurements. To do this, the agency's head and its board must determine that the need for the expedited procurement outweighs the benefits of making the procurement on the basis of competitive sealed bids or competitive sealed proposals.
- ***Intergovernmental Cooperative Purchasing Agreements:*** A procurement method entered into by the State and another entity selected in a manner consistent with the purposes of State procurement and intended to promote efficiency and savings that can result from intergovernmental cooperative purchasing. The State could enter into this agreement with the federal government, other states, or municipalities. Agencies can both sponsor and participate in these agreements. An example is the Minnesota Multistate Contracting Alliance, through which the Department of Public Safety and Correctional Services procured drug testing services in August 2017.
- ***Noncompetitive Negotiated Procurements:*** A procurement method by which an agency may award a procurement contract for specified human, social, or educational services if the agency head determines, on the basis of continuing discussion or past experience, that an award under

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this process will serve the best interest of the State. This is most common with foster care services. Generally, there are less available beds than children needing services, and all responsible contractors are eligible for an award.

- ***Auction Bids:*** A procurement method by which an agency may award a procurement contract after issuing an invitation for auction bids. This can only be allowed for procurements in excess of \$1 million. The invitation should include the “objective measurable criteria by which the lowest evaluated bid price will be determined” and the date and time when bidding will begin and end. This method is commonly used by the Department of General Services (DGS) for energy contracts.
- ***Master Contract Awards:*** This is a two-step procurement. Initially, the procurement authority approves master contractors who provide a maximum price for their product. This master contract is required to be approved by BPW if it is anticipated to exceed \$200,000. When a purchase is made, a task order (awarded on price and technical scores) or purchase order (awarded on price alone) Request for Proposal is issued. Any of the approved vendors can submit bids. The winning bid in the secondary procurement is not required to be approved by BPW. This is often used with IT equipment.

Small procurements are exempt from BPW approval. Chapters 588 and 589 of 2017 increased the threshold for small procurements from \$25,000 to \$50,000, raised the corresponding threshold for DGS construction contracts from \$50,000 to \$100,000, and applies the \$100,000 threshold to MDOT projects. These changes were effective on October 1, 2017.

Procurement policy is also shaped by socioeconomic considerations. For example, the State has programs that assist small businesses, minority businesses, preferred providers (such as Maryland Correctional Enterprises and Blind Industries and Services of Maryland), and veteran-owned small businesses.

Competitive sealed bids and competitive sealed proposals are the preferred procurement methods of the State, as each attempts to achieve as much competition as possible. **Exhibit 3** shows that more than 50% of contracts approved by BPW in fiscal 2016 and 2017 were competitive procurements. **Insofar as this is the preferred procurement method, 50% seems low. The board should discuss strategies that can be implemented to increase the number of competitively bid procurements.**

Exhibit 3
Contracts Approved by Procurement Method
Fiscal 2015-2018

	<u>2015</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>	<u>2017</u> <u>Actual</u>	<u>2018</u> <u>Estimated</u>
Competitive Bids				
Competitive Sealed Bid	32.1%	38.2%	35.5%	36.4%
Competitive Sealed Proposal	13.2%	14.0%	15.0%	14.9%
Subtotal	45.4%	52.2%	50.5%	51.2%
Single Vendor and Emergency Bids				
Single Bid/Proposal Received	7.0%	5.0%	6.7%	5.8%
Sole Source	14.1%	12.8%	10.8%	11.6%
Emergency or Expedited	8.6%	10.0%	10.3%	9.9%
Other	25.0%	20.1%	21.7%	21.5%
Subtotal	54.6%	47.8%	49.5%	48.8%
Total	100.0%	100.0%	100.0%	100.0%

Source: Department of Budget and Management

Fiscal 2018 Actions

Across-the-board Employee and Retiree Health Insurance Reduction

The budget bill includes an across-the-board reduction for employee and retiree health insurance in fiscal 2018 to reflect a surplus balance in the fund. This agency's share of this reduction is \$13,298 in general funds.

Proposed Budget

BPW's fiscal 2019 allowance totals \$7,694,915, which is 0.3% greater than the working appropriation. The entire appropriation is in general funds, and the total increase is \$21,229. **Exhibit 4** lists changes in excess of \$500. Most of the increase is attributable to health insurance costs (\$13,298) and the general salary increase (\$8,905). The remaining costs are essentially flat. The most notable changes are a \$609 reduction in telecommunications costs and a \$562 reduction to BPW's allocation for the Statewide Personnel System.

**Exhibit 4
Proposed Budget
Board of Public Works
(\$ in Thousands)**

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
Fiscal 2017 Actual	\$7,092	\$500	\$7,592
Fiscal 2018 Working Appropriation	\$7,674	\$0	\$7,674
Fiscal 2019 Allowance	<u>\$7,695</u>	<u>\$0</u>	<u>\$7,695</u>
Fiscal 2018-2019 Amount Change	\$21	\$0	\$21
Fiscal 2018-2019 Percent Change	0.3%		0.3%

Where It Goes:

Personnel Expenses

Fiscal 2019 general salary increase	\$9
Employee and retiree health insurance	13

Other Changes

Telecommunications costs.....	-1
Statewide Personnel System allocation	-1

Total **\$21**

Note: Numbers may not sum to total due to rounding.

Personnel

There are no changes in positions and the budget does not assume any merit increases for BPW employees. The Administration’s budget is not providing any merit pay increases.

General Salary Increase

The fiscal 2019 allowance includes funds for a 2.0% general salary increase for all State employees, effective January 1, 2019. These funds are budgeted in the Department of Budget and Management’s statewide program and will be distributed to agencies during the fiscal year. BPW’s share of the general salary increase is \$8,905 in general funds. In addition, employees will receive another 0.5% increase and a \$500 bonus effective April 1, 2019, if actual fiscal 2018 general fund

revenues exceed Board of Revenue Estimates (BRE) December 2017 revenue estimates by \$75 million. These funds have not been budgeted. The Administration will need to process a deficiency appropriation if BRE revenues are \$75 million more than projected.

Grants to Private Nonprofits

The fiscal 2019 allowance for grants to private nonprofits totals \$6,021,136 in general funds, which is the same amount as the fiscal 2018 working appropriation.

- ***Maryland Zoo in Baltimore:*** The State has provided the Maryland Zoo in Baltimore with a variety of grants to support its general operations over the past 20 years. These funds have resided in the BPW budget since 2004. The board's fiscal 2019 allowance includes a \$4,815,209 general fund operating grant to the zoo, matching the fiscal 2018 working appropriation. In addition, State funding for educational organizations includes \$812,171 for zoo operations, resulting in total State operating funding of \$5,627,380. The fiscal 2019 capital budget bill also proposes a \$3,500,000 grant for capital improvements.
- ***Historic Annapolis Foundation:*** The fiscal 2019 allowance provides a \$789,000 general fund grant to HAF, which is unchanged from fiscal 2018. As shown in Exhibit 1, HAF leases State-owned historic buildings in Annapolis and is contractually obligated to operate and maintain them.
- ***The Western Maryland Scenic Railroad:*** The fiscal 2019 allowance provides a \$250,000 general fund grant to the Western Maryland Scenic Railroad. The foundation reported that the funds will be used to support ongoing maintenance needs for the railroad. The grant was first provided in fiscal 2017 and has remained at \$250,000 for all three years.
- ***Council of State Governments:*** A \$166,927 general fund grant to the Council of State Governments (CSG) provides the organization with an operating budget subsidy. CSG uses these funds to provide support services for priorities established by legislative leaders and executives through the Council of State Governments Eastern Regional Conference, the Southern Legislative Conference, and the Southern Governors' Association. The amount budgeted represents the same as was appropriated in fiscal 2018.

Issues

1. Annual Review of Maryland Zoo Attendance and Financial Statements

As in recent years, the Maryland Zoo submitted financial statements and attendance reports to the budget committees. Attendance reports are provided monthly, and the audited financial statement was received in October 2017.

Zoo Attendance Increases in Fiscal 2017

Exhibit 5 shows zoo attendance for fiscal 2013 through 2017 by visitor group type. Attendance increased by an annual rate of 6.0% over the five-year period and 8.8% from fiscal 2016 to 2017. The number of general visitors is up by over 28,000 (15.1%) more than in fiscal 2016. Though member admissions have increased at an annual rate of 7.6%, the increase slowed to 2.0% from fiscal 2016 to 2017.

Exhibit 5
Maryland Zoo in Baltimore – Attendance by Groups
Fiscal 2013-2017

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Change</u> <u>2016-2017</u>	<u>%</u> <u>Change</u> <u>2016-2017</u>	<u>Annual %</u> <u>Change</u> <u>2013-2017</u>
General	163,197	190,933	169,117	188,755	217,227	28,472	15.1%	7.4%
Member	126,194	129,687	154,133	165,831	169,142	3,311	2.0%	7.6%
School	88,383	85,852	83,337	87,951	94,217	6,266	7.1%	1.6%
Passes	22,388	18,374	19,947	22,388	25,137	2,749	12.8%	2.9%
Total	400,162	424,846	426,534	464,925	505,723	40,798	8.8%	6.0%

Source: The Maryland Zoo in Baltimore

Through the first half of the fiscal year, attendance is higher than it has been in all but one of the last five years. **Exhibit 6** shows that only fiscal 2016 has had higher attendance between July and December. The exhibit also shows that fiscal 2017 had unusually high attendance from January to June 2017.

Exhibit 6
Attendance: First Six Months Compared to Full Fiscal Year
Fiscal 2013-2018

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
July to December	165,364	196,872	206,406	217,027	199,336	212,444
January to June	234,798	227,974	220,128	247,898	306,387	n/a
Full Year	400,162	424,846	426,534	464,925	505,723	n/a

Source: The Maryland Zoo in Baltimore

Earned Income and Expenses

Exhibit 7 shows the changes in zoo revenues and expenses from fiscal 2013 to 2017, as detailed in the audited financial statements.

Attendance Revenues

Attendance revenues have been increasing steadily, in recent years. From fiscal 2013 to 2017, they increased at an annual rate of 9.5%. Notable changes include:

- **Visitor Revenue** – is obtained from admission ticket sales, concession commissions, enjoyment of rides (net of revenue sharing paid to vendors), and facility rentals. The category of visitor revenue does not include membership sales. This has been growing steadily at a 10.0% annual rate since fiscal 2013. Continuing this trend, visitor revenue increased by approximately \$364,000, or 10.0%, in fiscal 2017.
- **Membership Dues** – increased by almost \$36,000, or 2.0%, in fiscal 2017. Although this is a small increase, it was preceded by a period of strong growth; from fiscal 2013 to 2016, membership dues increased at a rate of 10.0% annually. There were three changes that helped contribute to the zoo’s increase in member dues in recent years. The first change was a discount program that incentivized existing members to renew their memberships before they expired, thereby increasing the retention rate of members and increasing total revenues. The second change involved restructuring membership levels to simplify the sales process. The third change was an increase in membership pricing; prices for the most popular family membership levels, basic and plus, were increased by \$3 and \$10, respectively.

Exhibit 7
Maryland Zoo in Baltimore – Audited Financial Statements
Fiscal 2013-2017
(\$ in Thousands)

Revenues	2013	2014	2015	2016	2017	Change 2016-2017	% Change 2016-2017	Annual % Change 2013-2017
Attendance Revenues								
Visitor Revenue	\$2,693	\$3,026	\$3,098	\$3,568	\$3,932	\$364	10.2%	9.9%
Membership Dues	1,374	1,373	1,662	1,804	1,840	36	2.0%	7.6%
Special Events	438	420	517	597	672	75	12.6%	11.3%
Education Programs	248	262	247	398	397	-1	-0.2%	12.5%
Subtotal	\$4,753	\$5,080	\$5,525	\$6,367	\$6,841	\$475	7.5%	9.5%
Grants and Contributions								
Grants and Awards	\$10,643	\$18,293	\$9,759	\$9,590	\$10,011	\$421	4.4%	-1.5%
Contributions	1,759	1,247	860	1,491	793	-698	-46.8%	-18.0%
In-kind Donations	810	831	977	823	949	126	15.3%	4.1%
Subtotal	\$13,211	\$20,372	\$11,595	\$11,905	\$11,754	-\$151	-1.3%	-2.9%
Other Revenues								
Insurance Recoveries	\$28	\$1,389	\$112	\$455	\$0	-\$455	-100.0%	-100.0%
Investment Income	15	24	1	-5	20	25	n/a	n/a
Other Revenue	19	10	77	10	37	28	286.6%	17.7%
Subtotal	\$63	\$1,423	\$190	\$460	\$57	-\$403	-87.6%	-2.3%
Total Revenues	\$18,027	\$26,875	\$17,310	\$18,731	\$18,652	-\$79	-0.4%	0.9%
Expenses								
Program Services	\$12,897	\$13,410	\$14,238	\$14,980	\$15,407	\$426	2.8%	4.5%
Supporting Services	2,803	2,836	2,622	2,424	2,860	435	18.0%	0.5%
Fundraising	532	849	925	1,042	1,035	-8	-0.7%	18.1%
Total Expenses	\$16,232	\$17,095	\$17,786	\$18,447	\$19,301	\$854	4.6%	4.4%
Net Income	\$1,796	\$9,780	-\$475	\$284	-\$649	-\$933		

Source: *Maryland Zoological Society Consolidated Financial Statements*, June 30, 2012, 2013, 2014, 2015, and 2017

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- **Special Events** – revenue increased by approximately \$75,000, or 12.6%, in fiscal 2017. The zoo runs special events throughout the year that appeal to different age groups and demographics. Two events, Brew at the Zoo and Oktobearfest, generated almost 90.0% of special event revenues. Brew at the Zoo takes place over the Saturday and Sunday of Memorial Day weekend and generates two-thirds of revenues. Other events include College Night, Summer Football Festival, Paint Nights, and Yoga at the Zoo.
- **Education Programs** – generate revenues through the ZOOMobile visits as well as educational breakfasts, lectures, and guided tours. These revenues decreased by under \$1,000 in fiscal 2017.

Grants And Contributions

Grants and contributions have fluctuated in recent years, ranging from a high of \$20.4 million in fiscal 2014 to a low of \$11.6 million in fiscal 2015. Trends include:

- **Grants and Awards** – increased by nearly \$421,000, or 4.4%, in fiscal 2017. Grants and awards generally consist of public funding from State and local jurisdictions for both operating and capital funds, as **Exhibit 8** shows. Grants and awards are more than half of the zoo’s revenues in every year. Grant revenues as a share of total revenues range from 51.0% in fiscal 2016 to 68.0% in 2014. The high levels of grants in fiscal 2014 are attributable to additional grants for capital projects. The zoo reports that the increase reflects the grant of \$7.0 million that the State provided in fiscal 2014 for capital improvements, specifically the Penguin Coast exhibit.

Exhibit 8
Sources of Grants and Awards
Fiscal 2017
(\$ in Thousands)

<u>Source</u>	<u>Amount</u>
Maryland Board of Public Works – Operating	\$5,315
Maryland Board of Public Works – Capital	2,489
Maryland State Department of Education School Children Grant	812
City of Baltimore	564
Baltimore County Commission on the Arts and Sciences Operating Grant	500
Other	331
Total	\$10,011

Source: *Maryland Zoological Society Consolidated Financial Statements*, June 30, 2017

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- **Contributions** – are comprised of annual donations from individuals and corporations, excluding memberships, and are often provided in support of specific exhibit projects. The zoo reports that contributions received in fiscal 2014 included a higher number of private capital gifts related to the Penguin Coast exhibit. The fiscal 2015 decline reflects the reduced capital spending, primarily due to the conclusion of the penguin project and the one-time nature of contributions. In fiscal 2016, the zoo received a bequest of over \$530,000. Fiscal 2015 and 2017 contributions thus reflect a more typical flow of capital contributions.
- **In-kind Donations** – increased by almost \$126,000, or 15%, in fiscal 2017. In-kind donations are noncash donations that the zoo received, in large part, from Baltimore City, which provided approximately \$945,000; the increase thus reflects general increases in rent, waste removal services, and electricity costs donated by the city. The zoo also received \$4,602 in legal services.

Other Revenues

- **Insurance Recoveries** – did not occur in fiscal 2017. Fiscal 2014 insurance recoveries were much higher due to the receipt of payment for the damages that developed in the Maryland Aviary and the African Aviary, as a result of two snowstorms that occurred in February 2010.
- **Investment Income** – the zoo’s investments are held in a pool managed by the Baltimore Community Foundation. These investments are held in an account that includes equities. Returns on equities are uneven, so investment income varies from year to year, with some years even realizing losses. Over the five-year period, income ranged from gains exceeding \$24,000 to losses of almost \$5,000.

Expenses

The zoo’s expenses increased in every year since fiscal 2013. The average annual increase is 4.5%. In fiscal 2017, Program Services were 80.0% of spending. Program Services expenses are costs related to maintaining the zoo, such as facilities maintenance, care of the animals, and education programs. In fiscal 2017, the zoo received a supplemental \$500,000 grant from the State. The zoo advises that the funds were used to increase salaries for employees. Since this one-time grant was used to support ongoing activities, this puts additional pressure on revenues.

The fastest growing activity in recent years has been fundraising, which almost doubled from fiscal 2013 (approximately \$532,000) to 2017 (\$1,035,000). The zoo advises that this reflects increased outreach efforts, as well as a larger fundraising team. The leader of the fundraising efforts at the zoo establishes annual goals for her teammates and maintains a scorecard which is tracked monthly against those goals. Due to flat or reduced public funds, growth in this sector is crucial, as the zoo has had to rely more heavily on privately generated funds. **The zoo should be prepared to brief the committees on its increasing fundraising efforts.**

The zoo seems to have made efforts to keep administrative costs down. Supporting Services, which reflect such activities as accounting, personnel administration, and strategic direction have increased at an annual rate of 0.5% since fiscal 2013. However, there is an 18.0% increase in fiscal 2017. This is attributable to raises received by employees and one-time costs for professional services related to technology initiatives to upgrade two major applications: the 20-year-old ticketing system and the Customer Relations Management System. These are now cloud applications. The customer system relieves staff of cumbersome tasks and allows staff to do more targeted marketing and be more responsive to customers.

Outlook for the Future Remains Stable, Though Expenses Have Exceeded Revenues in Some Years

The zoo has had positive net income in seven of the last nine years. One of those net loss years, however, was fiscal 2017, when the zoo’s expenses exceeded revenues by just over \$649,000. The zoo notes that balances on debt were reduced by approximately \$444,000 in fiscal 2017. Cash balances have also increased as net cash and cash equivalents are about \$410,000 more at the end of fiscal 2017.

The zoo has also been able to keep costs down and increase the share of revenues derived from attendance. **Exhibit 9** shows that the share of revenues generated from grants and contributions declined from 73% in fiscal 2013 to 63% in fiscal 2017.

Exhibit 9
Attendance, Grant, and Other Revenues as a Share of Total Revenues
Fiscal 2013-2017

<u>Percent of Total</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Attendance Revenues	26%	19%	32%	34%	37%
Grants and Contributions	73%	76%	67%	64%	63%
Other Revenues	0%	5%	1%	2%	0%
Total Revenues	100%	100%	100%	100%	100%

Source: *Maryland Zoological Society Consolidated Financial Statements*, June 30, 2012, 2013, 2014, 2015, and 2017

However, the zoo is still heavily reliant on grants and contributions, most of which stem from State and local governments. While the share of revenues from grants and contributions has declined, it is 63%, which is almost two-thirds of revenues.

The zoo has recently been accredited by the Association of Zoos and Aquariums (AZA) for one year through September 2018. AZA will return this year to inspect the zoo. The zoo expects to attend to all items so that the Accreditation Commission will extend accreditation for four years. To make the necessary improvements, capital grants will be needed. In the fiscal 2019 capital budget bill,

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the Administration is proposing \$3.5 million in grants for the zoo. The high level of grants in fiscal 2014, which totaled \$18.3 million, was largely attributable to State capital grants, which totaled \$10. million. While increases in attendance can reduce the zoo's reliance on grants and contributions to fund day-to-day operations, it is unlikely that these revenues can increase to the point that additional grants for capital improvements will not be needed at any time in the near future.

The Maryland Zoo in Baltimore should be prepared to discuss its future direction and financial prospects.

Operating Budget Recommended Actions

1. Adopt the following narrative:

Operational Reporting: In continuance of the practice that began in July 2008, the committees request that the Maryland Zoological Society submit audited financial statements for fiscal 2018 and year-to-date monthly attendance figures for the zoo for fiscal 2019 by visitor group.

Information Request	Author	Due Date
Audited Financials	Maryland Zoological Society	November 1, 2018
Monthly Attendance	Maryland Zoological Society	Monthly

Updates

1. Contingent Fund Use

BPW maintains Maryland’s contingent fund, which is used to fund unforeseen circumstances. **Exhibit 10** indicates expenditures from the fund by agency and use in fiscal 2017.

Exhibit 10
Contingent Fund Use
Fiscal 2017

<u>Agency</u>	<u>Use of Funds</u>	<u>Amount</u>
Secretary of State	To support unanticipated costs for charity enforcement.	\$104,000
Interagency Committee on School Construction	To fund personnel expenses while the Executive Director position is vacant and to reclassify positions.	63,000
State Board of Contract Appeals	To provide funding for accrued leave of employees that have left the board.	29,200
Total Expenditures		\$196,200
Reverted to the General Fund		\$303,800
Total Appropriations		\$500,000

Source: Budget Amendment 084-17, Approved by the Board of Public Works on June 21, 2017; Interagency Committee on School Construction

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**Appendix 1
Current and Prior Year Budgets
Board of Public Works
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2017					
Legislative Appropriation	\$7,656	\$0	\$0	\$0	\$7,656
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	-179	500	0	0	321
Reversions and Cancellations	-385	0	0	0	-385
Actual Expenditures	\$7,092	\$500	\$0	\$0	\$7,592
Fiscal 2018					
Legislative Appropriation	\$7,687	\$0	\$0	\$0	\$7,687
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$7,687	\$0	\$0	\$0	\$7,687

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. Numbers may not sum to total due to rounding.

Fiscal 2017

Fiscal 2017 expenditures totaled \$7,592,008, which is \$64,274 less than the legislative appropriation. The legislative appropriation totaled \$7,656,283, and this entire amount was general funds. During the year, there was a \$500,000 special fund appropriation that was a grant to the Maryland Zoo in Baltimore.

General fund budget amendments reduced appropriations by \$178,852. Another \$385,422 was reverted to the General Fund. Specific general fund actions include:

- a budget amendment transferring \$196,200 out of the Contingent Fund to support the State Board of Contract Appeals accrued leave payout (\$29,200); the Secretary of State costs for unanticipated charity enforcement (\$104,000); and the Interagency Committee on School Construction for accrued leave payout, personnel services for an absent Executive Director, and position reclassifications (\$63,000);
- a budget amendment transferring \$17,348 to support employee increments;
- the contingent fund reverting unspent funds totaling \$303,800;
- the Administration Office reverting \$62,225 primarily due to unexpected vacancies (\$11,825), unused contractual employment (\$8,322), and unspent contractual services (\$27,156); and
- the Wetlands Administration reverting \$19,398 due to reduced spending on contractual services, salaries and wages, supplies, and equipment.

Fiscal 2018

The fiscal 2018 legislative appropriation totals \$7,686,984. The entire amount is general funds. To date, no budget amendments have been approved.

**Appendix 2
Audit Findings**

Audit Period for Last Audit:	March 24, 2014 – July 10, 2017
Issue Date:	November 2017
Number of Findings:	0
Number of Repeat Findings:	0
% of Repeat Findings:	n/a
Rating: (if applicable)	n/a

The audit did not disclose any findings.

**Appendix 3
Object/Fund Difference Report
Board of Public Works**

<u>Object/Fund</u>	<u>FY 17 Actual</u>	<u>FY 18 Working Appropriation</u>	<u>FY 19 Allowance</u>	<u>FY 18 - FY 19 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	9.00	9.00	9.00	0.00	0%
Total Positions	9.00	9.00	9.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 1,017,999	\$ 1,045,378	\$ 1,045,324	-\$ 54	0%
02 Technical and Spec. Fees	12,794	21,750	21,750	0	0%
03 Communication	3,796	8,145	7,536	-609	-7.5%
04 Travel	4,251	5,450	5,650	200	3.7%
08 Contractual Services	13,277	47,892	47,381	-511	-1.1%
09 Supplies and Materials	18,342	24,100	24,100	0	0%
10 Equipment – Replacement	218	4,200	4,200	0	0%
11 Equipment – Additional	0	2,500	2,500	0	0%
12 Grants, Subsidies, and Contributions	6,521,136	6,521,136	6,521,136	0	0%
13 Fixed Charges	195	5,433	5,433	0	0%
14 Land and Structures	0	1,000	1,000	0	0%
Total Objects	\$ 7,592,008	\$ 7,686,984	\$ 7,686,010	-\$ 974	0%
Funds					
01 General Fund	\$ 7,092,008	\$ 7,686,984	\$ 7,686,010	-\$ 974	0%
03 Special Fund	500,000	0	0	0	0.0%
Total Funds	\$ 7,592,008	\$ 7,686,984	\$ 7,686,010	-\$ 974	0%

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.

**Appendix 4
Fiscal Summary
Board of Public Works**

<u>Program/Unit</u>	<u>FY 17 Actual</u>	<u>FY 18 Wrk Approp</u>	<u>FY 19 Allowance</u>	<u>Change</u>	<u>FY 18 - FY 19 % Change</u>
01 Administration Office	\$ 866,467	\$ 937,121	\$ 936,154	-\$ 967	-0.1%
02 Contingent Fund	0	500,000	500,000	0	0%
05 Wetlands Administration	204,405	228,727	228,720	-7	0%
10 Miscellaneous Grants to Private Nonprofit	6,521,136	6,021,136	6,021,136	0	0%
Total Expenditures	\$ 7,592,008	\$ 7,686,984	\$ 7,686,010	-\$ 974	0%
General Fund	\$ 7,092,008	\$ 7,686,984	\$ 7,686,010	-\$ 974	0%
Special Fund	500,000	0	0	0	0.0%
Total Appropriations	\$ 7,592,008	\$ 7,686,984	\$ 7,686,010	-\$ 974	0%

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.